"MICROFINANCING AND ITS EFFECTIVENESS"

A CASE STUDY OF BENGALURU RURAL DISTRICT, KARNATAKA, INDIA.

Synopsis submitted in partial fulfilment of the requirements for the

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to

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by

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INTRODUCTION

In India, the development of the microfinance industry may be roughly divided into four different phases.

Phase 1: Subsidized credit to villages during the cooperative movement (1900–1960)

Phase 2: Subsidized social banking (from the 1960s to 1990), with participation from NABARD and the Small-Scale Industries Development Bank of India (SIDBI), as well as the launch of a government-sponsored Integrated Rural Development Program (IRDP).

Phase 3: Development of NGO-MFIs and the SHG-Bank Linkage Program (1990 –2000)

The first ten years of the new millennium represent Phase 4-the commercialization of microfinance.

People have historically saved money and obtained small loans from individuals and organisations in the context of self-help to launch companies or farming endeavours.

Nearly one third of the world's impoverished live in India, according to research by the World Bank (surviving on an equivalent of one dollar a day). Even though there are numerous federal and state programmes to combat poverty now in place in India, microfinance is a crucial factor in financial inclusion. It has made a significant contribution to the eradication of poverty in recent decades.

According to reports, those who have used microlending have been able to raise their income and, consequently, their standard of living.

Microfinance is defined by the Asian Development Bank (2000) as the delivery of a wide range of services to low-income households and their microbusinesses, including savings, deposits, loans, payment services, money transfers, and insurance. This concept of microfinance include low income households as well as persons who live below the poverty line.

DEMOGRAPHICS OF THE RURAL DISTRICT OF BENGALURU.

One of the 30 districts in India's Karnataka is the Bengaluru Rural District. It will be established in 1986, following Bengaluru's division into its rural and urban portions. There are currently 2 divisions, 4 Talukas, 35 Hoblis, 1,713 inhabited and 177 uninhabited villages, 9 cities, and 229 Gram Panchayats in the Bengaluru Rural district.

Size: 2,298 km2

There are 9.91 lakh people (2011)

Office location: Bengaluru

(4) Taluks

Doddaballapura, Hoskote, Nelamangala, Devanahalli

In Bangalore Rural district, there are 8 towns, 1,051 villages, and 4 Taluks. According to Census India 2011, the population of Bangalore Rural district is 9,90,923, with 2,29,279 homes, 5,09,172 males, and 4,81,751 females.

Agricultural and horticultural crops like ragi, rice, groundnuts, sugarcane, castor, grapes, mulberries, etc. are abundant in the district. There are sufficient infrastructure facilities for banking, credit, marketing, transportation, and communications. Although the area lacks many mineral resources, its non-metallic mineral resources are used to make stoneware, bricks, and tiles. For a sizable portion of the population, weaving has long been a prominent occupation. Along with other agro-based sectors, the land and such weather conditions are favourable for mulberry farming, silkworm rearing, and silk manufacture. There are several wineries, and the amount of wine produced has been rising.

Bengaluru Rural district has 987,257 residents, which is nearly equivalent to the population of Fiji or the state of Montana in the United States, according to the 2011 census. It now occupies the 449th spot in India (out of a total of 640). 441 people live in the district for every square kilometre (1,140 for every square mile). Its population grew at a 16.02% annual pace between 2001 and 2011. The literacy rate in Bengaluru Rural is 78.29%, and there are 945 females for every 1000 males.

STATEMENT OF THE PROBLEM

According to numerous research, microfinance institutions (MFIs) have become a viable financial method for assisting the urban, semi-urban, and rural poor. But it's important to investigate whether, as asserted elsewhere, self-help group-routed microcredit programmes have been extremely successful in Bengaluru Rural Districts as well. Evaluation of the effects of loans, repayments, and the beneficiaries' social standing has taken on critical importance. In low income areas, a lack of resources is the main cause of poor economic activity. People from low income areas in developing nations, such as merchants or producers of domestic goods, sometimes have creative business ideas but lack the funding to put them into action. This occurrence encourages them to do more

The relationship between microfinance institutions and the borrowers, loans, repayments, and socioeconomic position in Bengaluru Rural Districts will thus be examined in this study. The main goal of the current study is to evaluate this influence.

OBJECTIVES (Revised as per Suggestions in RPAC)

Following a thorough examination of the subject area and literature evaluation, the research problem statement has led to the development of the research objectives.

- To study the evolution of Microfinance Industry in India (South India growth)
- To evaluate the success of Microfinance firms in providing microcredit to the needy.
- The effects of microloans, specifically with reference to the Bengaluru Rural District in Karnataka, India understand the role of demographic, social and geographic factors on the impact of microfinance loans with Special Reference to Bengaluru Rural District, Karnataka, India
- To appraise the dynamic scenario and drivers in loans and repayments of borrowers of MFI in Bengaluru Rural District, Karnataka
- To review 3 basic potential drivers of change in the role of microfinance borrowers like: Rising political aspirations, new technology and Agro-climatic change in Bengaluru Rural District.

METHODOLOGY

The analysis of the study's overall goal and the formulated research questions served as the foundation for the choice of the mixed methods methodology.

Any one methodological approach does not offer a comprehensive understanding of the impact of microfinance in Bengaluru Rural District, hence the mixed technique approach will be deemed required.

Caselets and a pilot study will be given out.

Semi-structured interviews and case studies were employed as well as quantitative methods like OLS regression, ANOVA with post hoc analysis, and t-tests.

Hypothesis 1: The respondents' community in Bengaluru Rural District has seen a rise in income as a result of their use of microfinance loans.

Hypothesis 2: The respondents' expenses in their Bengaluru Rural neighbourhood have increased as a result of using microfinance loans.

Hypothesis 3: The respondents' migration within their community in Bengaluru Rural District has decreased as a result of the use of microfinance loans.

Hypothesis 4: The respondents' community in Bengaluru Rural District has seen an increase in the respondents' educational attainment and occupational training as a result of their use of microfinance loans.

Hypothesis 5: The respondents in their community in Bengaluru Rural District have a greater working understanding of skills, trades, and crafts as a result of using microfinance loans.

Hypothesis 6: The respondents' community's social standing in Bengaluru Rural District has improved as a result of their use of microfinance loans.

Hypothesis 7: The respondents' status in their society has improved as a result of using microfinance loans.

Primary and secondary data

As the topic is of a recent more focused, both primary and secondary data is essential to make effective evaluation of Microfinance in poverty alleviation. The study is an empirical one based on sample survey method. The study is basically dependent on primary data. The required primary data will be collected by means of a questionnaire distributed in Bangalore Rural District. The secondary data will be collected from the national and international E-journals, Research articles, books and reports published by RBI, NABARD, and Newspapers etc

The sampling method used in the research is stratified random sampling method. Research study will be conducted with structured questionnaire by interviewing the managers of microfinance banks and questionnaire is designed for Microfinance Clients.

The type of research to be used for the study would be Survey Research Technique. Primary data collected from the sample of clients from Microfinance institutions by adopting simple random sampling method through structured questionnaire. An initial pilot study will be run for pre- testing the questionnaire. The questionnaire has been edited in the light of the result of the pilot survey. The reframed and modified questionnaires were used for the survey. Observation method will be used to gain first hand insights into various aspects of Microfinance Industry.

Instrument of survey

Questionnaire

The instrument has been administered to collect details with regards to Respondents profile. This part questions about the Age, Sex, Educational qualification, Number of family members, purpose of loan, and Family Income of the respondent and the questions were set to nominal scale multiple-choice type.

Both descriptive analysis and Factor analysis will be administered covering the objectives of the study such as:

Micro Finance Institutions products and Empowerment factors, products of Micro Finance Institutions have you benefited from, reasons behind in the use of micro finance products,

to find out the various schemes and satisfaction levels of **NABARD** and Microfinance Models. The questions were set in interval scale.

Limitations

- Low Outreach: In India, MFI outreach is very low. It is only 8% as compared to 65% in Bangladesh.
- India has a low literacy rate, which is still more moderate in its rural areas, hence low awareness.
- Lack of Enough Awareness of Financial Services in the Economy.